

## Message Text

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ACTION OPIC-06

INFO OCT-01 ARA-06 ISO-00 EB-07 COME-00 CIAE-00 INR-07

NSAE-00 AID-05 TRSE-00 L-02 /034 W

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R 152245Z JAN 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9071

INFO AMEMBASSY PANAMA

LIMITED OFFICIAL USR SAN JOSE 0192

E.O. 11652: N/A

TAGS: EINV, CS

SUBJECT: OPIC PROJECT - MORTON B. TURBOW

REF: STATE 6620

1. AFTER A THOROUGH REVIEW OF THE MATERIAL PROVIDED IN REFTEL, EMBASSY CONTINUES TO HAVE SERIOUS DOUBT ABOUT THE SUITABILITY OF THE MORTON B. TURBOW PROJECT FOR AN OPIC INVESTMENT GUARANTY. EMBASSY WOULD OPPOSE ISSUANCE OF AN OPIC GUARANTY FOR THE PROJECT UNLESS FULLY SATISFIED ON THE FOLLOWING POINTS:

2. DEVELOPMENT IMPACT - THE EMBASSY BELIEVES THAT THIS PROJECT DOES NOT PROVIDE THE ECONOMIC DEVELOPMENT THAT IS A BASIC REQUIREMENT FOR ALL OPIC FINANCED PROJECTS. THE PROJECT DOES NOTHING TO INCREASE THE PRODUCTIVE CAPACITY OF THE COSTA RICAN ECONOMY -- IT MERELY PROVIDES HOUSING FOR HIGH INCOME PERSONS.

3. SUITABILITY FOR OPIC FINANCING - OPIC'S QUESTION AND ANSWER SHEET ON DIRECT LOANS AND GUARANTIES STATES THAT OPIC DOES NOT FINANCE HOUSING. THE DOCUMENT READS: "Q. DOES OPIC FINANCE HOUSING? A. NO. AID HAS A PROGRAM OF HOUSING GUARANTIES THAT OFFERS AID FOR THIS TYPE OF FINANCING. OPIC COULD PERMIT A PART OF ITS FINANCING TO BE USED FOR SUCH PURPOSE ONLY IF THE HOUSING WERE AN INCIDENTAL PART OF A MUCH LARGER INDUSTRIAL OR AGRICULTURAL PROJECT."

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4. EQUITY STAKE BY INVESTOR - UNDER OPIC RULES, DOES NOT THE APPLICANT HAVE TO MAKE SOME SIGNIFICANT INVESTMENT OF HIS OWN FUNDS? AS OBSERVED IN THE EMBASSY'S 4870, THE INSURANCE APPLICANT, ACCORDING TO THE PROJECT DESCRIPTION, WILL NEVER AT ANY STAGE OF THE PROJECT HAVE ANY EQUITY INVESTMENT IN IT WHATSOEVER.

5. "INVESTOR" MUST APPLY - IS IT NOT THE CASE THAT THE PROPOSED AMERICAN INVESTOR MUST BE THE APPLICANT FOR OPIC INSURANCE? IN THIS PROJECT THE INVESTOR WOULD APPEAR TO BE THE SAVINGS AND LOAN INSTITUTIONS WHICH WOULD ULTIMATELY PROVIDE THE MORTGAGE FINANCING. THE APPLICANT APPEARS TO BE A MERE PROMOTER AND IS IN FACT SO DESCRIBED IN THE DEPARTMENT'S REFTEL. TO PROVIDE AN OPIC GUARANTIES UNDER SUCH CONDITIONS WOULD APPEAR TO CREATE A NEW SUB-CLASS OF PROMOTERS WHO WOULD BE GIVEN OPIC GUARANTIES (WITHOUT HAVING PUT UP ANY CAPITAL OR MADE ANY INVESTMENT WHICH WOULD ENHANCE THEIR EFFORTS TO ENLIST POTENTIAL INVESTORS.

6. LAND OWNERSHIP BY FOREIGNERS - ALTHOUGH OPIC STATES THAT THE HOUSING TO BE BUILT UNDER THIS PROJECT WOULD BE SOLD TO COSTA RICANS, THE EMBASSY UNDERSTANDS THAT IT WOULD BE ILLEGAL TO REFUSE TO SELL TO AMERICJFS. IN FACT, AMERICAN RETIREES WOULD APPEAR TO CONSTITUTE THE LARGEST NUMBER OF NEW PERSONS ARRIVING IN SAN JOSE WHO WOULD BE IN THE MARKET FMV NEW HOUSES.

7. UNFAVORABLE IMPACT ON THE U.S. - AT A TIME WHEN MORTGAGE FUNDS ARE IN SHORT SUPPLY IN THE U.S., A PROJECT OF THIS KIND THAT WOULD FPAW MORTGAGE FUNDS OUT OF THE U.S. FOR THE PURPOSE OF FINANCING UPPER CLASS HOUSING IN COSTA RICA WOULD APPEAR TO BE UNWARRANTED ON THE BASIS OF NEGATIVE IMPACT ON U.S. CITIZENS.

8. BONAFIDES OF SPONSORS - AS THE EMBASSY SUGGESTED IN ITS LAST TELEGRAM, RIUPNQWTHE#WHOLE ATMOSPHERE OF PROMOTIVE AND FINANCIAL MANIPULATION THAT SURROUNDS THIS PROJECT SUGGESTS THE DESIRABILITY OF A CLOSE CHECK OF THE BONA FIDES OF ALL OF THE PARTIES INVOLVED. THE EMBASSY IS NOT LIMITED OFFICIAL USE

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PREPARED TO RECOMMEND APPROVAL OF THIS PROJECT EVEN IF SATISFIED ON OTHER POINTS, UNLESS IT IS SATISFIED ABOUT THE BONA FIDES OF ALL THE PARTIES INVOLVED SUCH AS AICA-JACMAG INTERNATIONAL OF PANAMA, MORTON B. TURBOW, NORMAN VANDER CLUTE, AND THE PUERTO RICO FINANCIAL CORPORATION. THE EMBASSY PARTICULARLY WOULD WANT TO KNOW WHO ARE THE OWNERS OF THE TWO CORPORATIONS MENTIONED AND TO BE ASSURED THAT THERE IS NO INVOLVEMENT OF

UNSAVORY ELEMENTS.

9. ROLE OF DOLLARS IN THE PROJECT - THE EMBASSY NOTES THAT THE PROJECT PROVIDES DOLLARS TO FINANCE LOCAL COSTS. THREE-FOURTHS OF THE VALUE OF EACH MORTGAGE WILL APPARENTLY BE DENOMINATED IN DOLLARS. IF THE COLON IS DEVALUED IN THE FUTURE, AND PAST EXPERIENCE SUGGESTS THAT THIS COULD HAPPEN A NUMBER OF TIMES OVER THE LIFE OF THE MORTGAGE, WOULD THE HOME OWNERS HAVE THEIR DEBT BURDEN INCREASED BY THE AMOUNT OF ANY SUCH DEVALUATION? THIS INCREASED COST WOULD BE A BURDEN TO THEM AND COULD CAUSE DEFAULTS.

10. VALIDITY OF LOCAL GUARANTEES - THERE IS NO SUCH THING AS THE BANCO DE HEREDIA CARTAGO. THERE IS A SAVINGS AND LOAN INSTITUTION CALLED THE MUTUAL DE AHORRA Y PRESTAMO, HEREDIA, BUT IT IS NOT, AS ASSERTED, A PART OF THE NATIONAL BANKING SYSTEM. IT IS A MUTUAL ORGANIZATION OWNED BY ITS MEMBERS WHICH IS ADMINISTERED UNDER THE CONTROL OF THE DEPARTAMENTO CENTRAL DE AHORRA Y PRESTAMO (DECAP) OF THE BANCO AGRICOLA DE CARTAGO. THE LAW UNDER WHICH IT OPERATES RESTRICTS HOUSING GUARANTEES TO HOUSES VALUED AT LESS THAN 100,000 COLONES (ALTHOUGH EXCEPTIONS CAN BE PERMITTED) AND THE PRESENT POLICY OF DECAP IS TO ACCORD GUARANTEES ONLY ON HOUSES VALUED AT LESS THAN 85,000 COLONES (\$9,953), OR ONE-THIRD OF THE ESTIMATED VALUE OF THE HOUSES IN THIS PROJECT,

11. RECOMMENDATION - ON THE BASIS OF ALL OF THE ABOVE CONSIDERATIONS, THE EMBASSY'S PRESENT OPINION IS THAT THIS PROJECT SHOULD BE, IF A DECISION WERE MADE NOW, REJECTED ON FOREIGN RELATIONS GROUNDS. HOWEVER, IF OPIC CAN PROVIDE SATISFACTORY ANSWERS ON THE POINTS RAISED ABOVE, THE EMBASSY WOULD BE WILLING TO RECONSIDER ITS OPINION.

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NOTE BY OCT: # AS RECEIVED.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INVESTMENT GUARANTEES, INVESTMENT PROGRAMS, INVESTMENT CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION OPIC  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 6620  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 SEP 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08 SEP 2003 by ElyME>; APPROVED <14 NOV 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** OPIC PROJECT - MORTON B. TURBOW  
**TAGS:** EINV, CS, OPIC, (TURBOW, MORTON B)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006